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FISCAL IMPACT REPORT

ORIGINAL DATE 1/23/08

SPONSOR Snyder LAST UPDATED _____ HB _____

SHORT TITLE Employer Health Insurance Tax Credit SB 115

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(70,000.0)		Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SB115 relates to and conflicts with several health bills introduced in the 2008 session. See section below for table of all bills.

SOURCES OF INFORMATION

LFC Files

Taxation and Revenue response to SB723 in 2007 session

Responses Received From

Human Services Department (HSD)

SUMMARY

Synopsis of Bill

Senate bill 115 creates a credit for employers with 50 or fewer employees who provide health, disability or long term care insurance for employees. The credit is equivalent to 50 percent of the employer contribution to insurance premiums for the first five years of providing coverage and 35 percent after five years. The credit can only be claimed against the taxpayer's current personal or corporate income tax liability and if the taxpayer is a member of a partnership, S corporation or business association the credit is proportional to the taxpayer's ownership or interest.

FISCAL IMPLICATIONS

TRD has not updated its analysis and the analysis for SB723 from 2007 session is used.

According NM Department of Labor statistics, 95 percent of employers have fewer than 50 employees which make this credit available to most employers (Table 1). These firms have 286,000 employees. The Health Policy Commission has reported that 74 percent, or 208,000, of

these employees have some form of employer sponsored health insurance which averages \$5,100 per year in employer paid premiums. According to analysis provided by the Taxation and Revenue Department, the total amount of premiums eligible, \$1.06 billion, would generate a maximum credit value of \$371 million at a 35 percent credit rate. TRD: “Actual credit claims would be limited by income tax liability of firm owners. Business operators in New Mexico pay a total of roughly \$400 million per year in corporate and personal income tax. Using the ratio of income tax paid to total wages and salaries, total income tax liability for the firms with less than 50 employees is estimated to be about \$70 million per year. This amount is the limit of the total credits that can be claimed assuming that the bill does not provide for refund ability or carry-forward of credits in excess of tax liability.”

Table 1: Employers by Firm Size in NM

Firm Size	# Employers		
100+	1,071	2%	
50-99	1,090	3%	
25-49	2,190	5%	95%
10-24	5,689	13%	
5-9	7,242	17%	
1-4	19,804	46%	
0	5,992	14%	
43,078			

Source: NMDOL

TECHNICAL ISSUES

TRD:

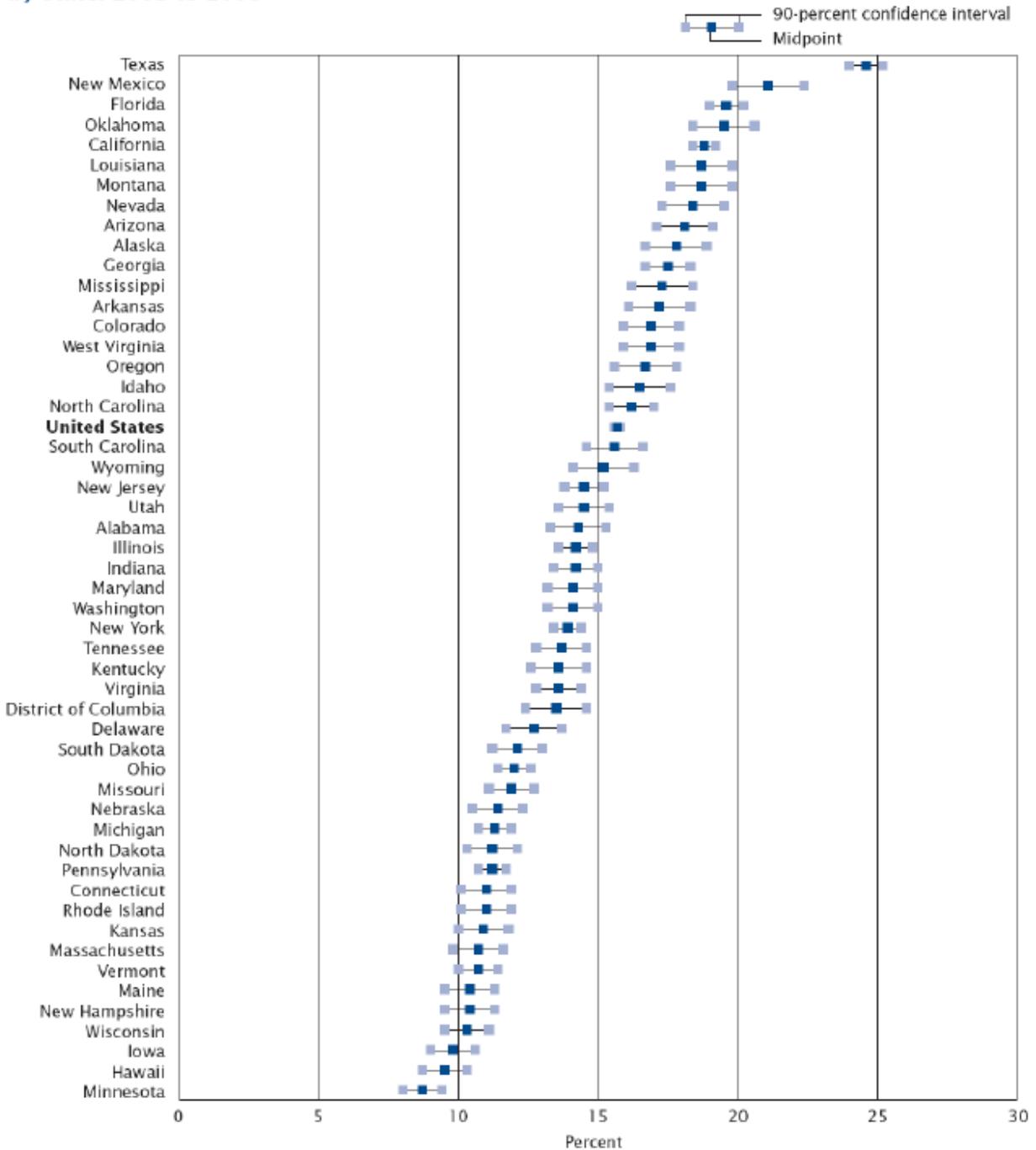
The rate of credit under the bill is made conditional on the time period during which an employer has been providing insurance to their employees. It is unclear from this language how the statute would apply to taxpayers currently paying employee health insurance premiums. The options are: the five-year period could begin with the effective date of the bill or with the point in time when an employer first provided insurance, even if that was at some time in the past. If employers currently offering insurance are not allowed the higher rate of credit, they have an incentive to cease paying premiums for some time period in order to qualify for credits during the first five years in which they resume paying premiums.

The bill would create an incentive for a “taxpayer” with more than 50 employees to break up into several “taxpayers” in order to claim the credit. To limit tax avoidance through this mechanism, the proposal should contain additional language requiring that all related entities are to be counted as part of the same “taxpayer” for purposes of the bill.

SIGNIFICANT ISSUES

The importance of health care coverage in New Mexico cannot be understated. Other than Texas, no other state has a higher percentage of uninsured than New Mexico. The chart below shows the state rankings.

Three-Year Average Percentage of People Without Health Insurance Coverage by State: 2003 to 2005



Source: U.S. Census Bureau, Current Population Survey, 2004 to 2006 Annual Social and Economic Supplements.

ADMINISTRATIVE IMPLICATIONS

TRD reports that forms and instructions for personal income tax and corporate income tax will have to be revised but can be incorporated into the annual revisions and should not be a significant burden.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Bill	H/S	Sponsor	Title
37	H	Wirth	ELECTRONIC MEDICAL RECORDS ACT
62	H	Heaton	HEALTH SOLUTIONS NEW MEXICO ACT
147	H	Picraux	HEALTH CARE AUTHORITY ACT
182	H	Varela	SIMPLIFY MEDICAID ELIGIBILITY
205	H	Foley	HEALTH INSURANCE EXCHANGE ACT
214	H	Gonzales	HEALTH SECURITY ACT
3	S	Cisneros	HEALTH SECURITY ACT
14	S	Feldman	HEALTH PROFESSIONAL RECRUITMENT & RETENTION
37	S	Beffort	REQUIRE COLLEGE STUDENT HEALTH INSURANCE
38	S	Beffort	NON-RESIDENT COLLEGE STUDENT HEALTH INSURANCE
39	S	Beffort	HEALTH INSURANCE TAX CREDIT
40	S	Beffort	HEALTH INSURANCE IN COLLEGE SCHOLARSHIPS
62	S	Sanchez	B. HEALTH EDUCATION CULTURAL TASK FORCE EMPLOYEE HEALTH INSURANCE PREMIUM TAX CREDIT
115	S	Snyder	CREDIT
129	S	Feldman	HEALTHY NEW MEXICO TASK FORCE
158	S	Komadina	HEALTH CARE PRACTITIONER GROSS RECEIPTS
225	S	Feldman	HEALTH CARE AUTHORITY ACT
228	S	Komadina	HEALTH INSURANCE EXCHANGE ACT

NF/bb